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R 111011Z APR 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 6113
INFO AMEMBASSY BENGHAZI
AMEMBASSY LONDON

C O N F I D E N T I A L TRIPOLI 071
LIMDIS

DEPARTMENT OF STATE A/CDC/MR	
REVIEWED BY <u>CJ</u>	DATE <u>8/7/81</u>
RDS ☐ or XDS ☐ EXT. DATE	
TS AUTH. _____	REASON (S) _____
ENDORSE EXISTING MARKINGS ☐	
DECLASSIFIED ☒ RELEASABLE ☒	
RELEASE DENIED ☒	
FOI EXEMPTIONS _____	

SUBJ: PETROLEUM SITUATION AND OUTLOOK

REF: TRIPOLI 0710

1. CURRENT SITUATION.

A. POSTED PRICES - POSTED PRICE ISSUE HAS REACHED A CRITICAL POINT, BUT OFFER BEING MADE BY ESSO SHOULD PROVIDE BASIS FOR NEGOTIATING SETTLEMENT. IF THIS PROGNOSIS PROVES WRONG AND UNILATERAL ACTION IS TAKEN, LARG SEEMS INCLINED TO OPT FOR IMPOSING NATIONAL CONTROL ON OIL INDUSTRY. LARG'S CONTINGENCY PLAN UNDERSTOOD TO BE BASED UPON LIMITING OIL PRODUCTION TO AMOUNT NECESSARY TO FINANCE GOVERNMENT (FIGURE WE HEAR IS MILLION B/D), WHICH WOULD BE SOLD BY LARG FOR ITS ACCOUNT, WHILE COMPANIES COULD LIFT AMOUNT PROPORTIONATE TO THEIR PRESENT REVENUE SPLIT CALCULATED AT POSTING. WHATEVER THE OUTCOME OF SUCH AN EXPERIMENT, CONCESSIONARY SYSTEM IN LIBYA WOULD BE IRREVOCABLY DAMAGED.

B. OTHER ISSUES - LARG HAS LET IT BE KNOWN THERE ARE OTHER ISSUES IT EXPECTS TO NEGOTIATE IF THE POSTED PRICE PROBLEM IS RESOLVED. THESE INCLUDE LIBYANIZATION, PETROLEUM REGULATIONS 8 (CONSERVATION AND OIL FIELD PRACTICES) AND 9 (REGULARIZATION OF FINANCIAL RELATIONS AND A GOVERNMENT ROLE IN POSTED PRICE DETERMINATION), AND

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PURCHASE OF CRUDE OIL AT PREFERENTIAL PRICE FOR MARKETING BY NATIONAL OIL COMPANY.

MEANWHILE, LARG HAS PROVIDED LEGAL STRUCTURE FOR FORMER LIPETCO -- NOW LIBYAN NATIONAL OIL CORPORATION -- TO BECOME AN ACTIVE OIL COMPANY. NEW CHARTER STRESSES USE OF CONTRACTS, RATHER THAN CONCESSIONS OR JOINT VENTURES, FOR OIL EXPLORATION IN AREAS UNDER LNOC CONTROL.

CREATION OF AN EFFECTIVE NATIONAL OIL COMPANY IN A MAJOR PRODUCING COUNTRY IS A LEGITIMATE NATIONALIST ASPIRATION. PROTECTING LIBYA'S OIL RESOURCES THROUGH REVISING THE REGULATIONS GOVERNING THEIR EXPLOITATION ALSO CAN BE SUBJECT OF LEGITIMATE COMMERCIAL/TECHNICAL NEGOTIATIONS. HOWEVER, THESE SAME DEVICES COULD BE USED GRADUALLY TO REDUCE THE STATUS OF OPERATIONALLY INDEPENDENT CONCESSIONAIRES TO THAT OF CONTRACTORS TO THE GOVERNMENT.

RECENT LNA EXPOSITION OF LARG ACTIONS IN PETROLEUM FIELD ASSERTS: LIBYA NOW HAS POSSIBILITY "TO FREE ITSELF FROM GRASP OF FOREIGN COMPANIES AND OPEN DIRECT BRIDGE BETWEEN OIL PRODUCING AND OIL CONSUMING COUNTRIES." THERE ALSO HAVE BEEN RECENT ACTIONS BY LARG OIL OFFICIALS AGAIN ATTEMPTING TO IMPOSE ASPECTS OF REGULATION 8, WITHOUT COMPANIES' ACCEPTANCE OF REGULATION, AND STATEMENTS ASSERTING GOVERNMENT'S INTEREST AND RIGHT IN TAKING CRUDE OIL AT, OR NEAR, PRODUCTION COST. THESE INDICATIONS, PLUS QADHAAFI'S SPEECH CITED REFTTEL, SUGGEST LARG IS ANXIOUS TO ASSUME RESPONSIBILITY FOR LIBYAN OIL PRODUCTION BUT IS RESTRAINED BY TECHNICAL INABILITY TO DO SO. IF NATIONAL CONTROL BECOMES LIBYA'S OIL POLICY OBJECTIVE, COMPANY-LARG RELATIONS WILL BE CONTINUOUSLY STRAINED, AND COMPANIES WILL FACE PROSPECT OF GRADUAL EROSION OF THEIR PRESENT CONCESSIONARY PREROGATIVES.

2. OUTLOOK.

UNCERTAINTIES INTRODUCED BY LIBYAN REVOLUTION LED OIL COMPANIES, ALMOST IMMEDIATELY, TO DEFER PLANNED CAPITAL EXPENDITURE. INVESTMENT EXPENDITURE HAS CONTINUED TO DECLINE AS UNCERTAINTY HAS GIVEN WAY TO CONVICTION, AMONG THE COMPANIES, THAT BOTH COST AND DIFFICULTY OF PRODUCING OIL IN LIBYA WILL RISE AS A CONSEQUENCE OF PRICE NEGOTIATIONS AND MOVES TOWARD TIGHTER GOVERNMENT CONTROL AND ACCELERATED LIBYANIZATION. LIBYAN PRODUCTION PROBABLY WILL STABILIZE AT AN AVERAGE OF AROUND 3.6 MILLION B/D FOR 1970, AS COMPANIES MARK TIME ON COMMITTING SIGNIFICANT NEW INVESTMENT. SHOULD COM-

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PANIES CONCLUDE THEIR FUTURE IN LIBYA, UNDER PRESENT CONCESSION TERMS, IS LIMITED TO FEW MORE YEARS, THEY WILL MOVE FROM CONSOLIDATION OF THEIR OPERATIONS TO RETRENCHMENT. SIGNALS NOW FLYING MAKE LATTER GOOD POSSIBILITY -- AND OUT COMMUNITY OF INTEREST WITH LIBYA WOULD DECLINE PROPORTIONATELY IF IT IS REALIZED.

TO MOVE FROM THIS BLEAK PROSPECT TOWARD MORE PROMISING FUTURE, LARG NEEDS TO REASSURE COMPANIES ABOUT THEIR STATUS IN LIBYA, FOR IT CANNOT HAVE A THRIVING OIL INDUSTRY WHILE CONTINUING TO NIBBLE AT COMPANY PROFITS AND OPERATING PREROGATIVES. ALSO TO ARRIVE AT WORKABLE RELATIONSHIP, COMPANIES WILL NEED TO BE MORE RESPONSIVE ON LIBYANIZATION (INCLUDING ESTABLISHING COSTLY TRAINING PROGRAMS) AND TO ACCEPT COMPETITION WITH A REVITALIZED NATIONAL OIL COMPANY -- PERHAPS WORKING OUT WITH LNOC CRUDE OIL PURCHASE ARRANGEMENTS COMPARABLE TO THOSE NEGOTIATED IN IRAN AND SAUDI ARABIA.

DIFFICULTY IN LIBYA IS THAT COST OF THESE ADJUSTMENTS IS NOT BORNE BY SINGLE HUGE CONSORTIUM, BUT BY EIGHT PRODUCING COMPANIES WHOSE PRODUCTION RANGES FROM ONE MILLION TO FOUR THOUSAND BARRELS PER DAY. SOME MAY, THEREFORE, FIND OPERATING IN LIBYA UNATTRACTIVE, HOWEVER AN ACCOMMODATION MIGHT BE REACHED.

TO EXTEND VIABLE AREA OF COMMON INTEREST CAN BE ESTABLISHED BETWEEN LARG AND USG, OIL COMPANIES WILL ENJOY IMPROVED ATMOSPHERE IN WHICH TO WORK OUT THEIR PROBLEMS. CONVERSE ALSO IS TRUE. ASSUMING POSTED PRICE ISSUE IS RESOLVED WITHOUT ALL THE CROCKERY BEING BROKEN, OUR TASK WILL BE TO ASSIST IN IDENTIFYING AND FINDING MEANS TO ACCOMMODATE MINIMUM INTEREST EACH PARTY CONSIDERS NECESSARY TO MAKE A CONTINUING RELATIONSHIP WORTHWHILE. GP-4.
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